

**Meeting Report**  
**Budget Review Meeting**  
**Wednesday, November 3, 2010**  
**Council Office & Penn Room**

**Attending:** J. Waltman, F. Acosta, D. Reed, S. Marmarou, M. Goodman-Hinnershitz, D. Sterner, L. Kelleher, D. Cituk, C. Younger, C. Geffken, C. Weidel, P. Edelman, M. Vind

Mr. Acosta, Finance Chair, called the meeting to order at approximately 4:32 p.m.

**Unfunded Debt**

Ms. Kelleher distributed the Unfunded Debt Ordinance and Resolution to the members of Council. Mr. Vind explained the attached spreadsheet showing the debt payment schedule. He stated that the DCED has approved the transaction for no more than \$20M. Mr. Geffken explained that the Administration has determined the need for \$16.5M. Mr. Vind noted the need for Council to enact the legislation on Monday, November 8<sup>th</sup> so a rating can be obtained by November 30<sup>th</sup> and the transaction can go to closing on December 15<sup>th</sup>.

Mr. Cituk requested a pro forma mark-up. Mr. Vind stated that the pro forma was provided in September when Council was considering approving the resolution authorizing the submission of a petition to the Court of Common Pleas. He stated that he would provide a copy to Mr. Cituk.

Mr. Vind stated that the results from the November 2<sup>nd</sup> election may make various state and federal issues go into deadlock until January, when the new elected officials are installed into office. He stated that the federal Build America Bonds may be affected.

Mr. Waltman asked Mr. Geffken to remind Council of the break-out of the \$16.5M requested. He stated that he will not support taking new debt to repay the money borrowed from the sewer fund due to the resulting budgetary issues. He noted the need for Council to provide input over the next few days. He inquired about the items funded beyond the \$10.5 for the sewer repayment. He stressed the need for Council to have a full understanding of all the facts before they vote on this issue.

Ms. Goodman-Hinnershitz expressed the belief that the City has no choice but to repay the money due to the consent decree with the Department of Justice. However, she noted the need for the City to improve its efficiencies as we can not continue to take unfunded debt annually.

Mr. Vind expressed the belief that this will be a one time occurrence.

Mr. Spencer asked Mr. Vind if Council could delay adopting the resolution. Mr. Vind noted his preference for both pieces of legislation to be adopted on November 8<sup>th</sup>. He explained that the final figures will be determined during the rating process and can be provided to Council on the 22<sup>nd</sup> of November.

Mr. Waltman noted the need for the City to develop a repayment schedule that is manageable. He also stressed the need for Council to review the EIT and sewer financial issues along with the unfunded debt.

Mr. Geffken stated that the following payments will be covered with the unfunded debt:

- \$7M repayment to the sewer fund
- \$3.5M reimbursement of general fund payment to the sewer fund
- \$1.6M 2010 projected deficit
- \$2.2M pension payment
- \$2.2M EIT reimbursement

**UNFUNDED DEBT TOTAL - \$16.5M**

Mr. Sterner inquired if the sewer monies were borrowed before or after the City formally went into Act 47. Mr. Geffken stated that the transaction occurred before Act 47.

Mr. Sterner noted that the amount borrowed is approximately the same as the interest payment over the next 10 years.

Mr. Acosta stated that the City must become more efficient and responsible to avoid these issues moving forward.

Ms. Reed and Mr. Sterner stated that the catapulting fringe benefit costs and pension costs create an eternal hole for the City's finances'

Mr. Vind was asked to attend Saturday's budget review session to discuss this issue further.

**The budget session recessed for the Capital Budget Public Hearing.**

**The meeting reconvened in the Penn Room at approximately 5:30 pm.**

**Attending:** J. Waltman, F. Acosta, D. Reed, S. Marmarou, D. Sterner, L. Kelleher, D. Cituk, C. Younger, C. Geffken, C. Weidel, F. Denbowski

### **Portnoff Associates**

Mr. Acosta asked Ms. Portnoff to explain the benefits of using a 3<sup>rd</sup> party collector rather than the County system.

Ms. Portnoff stated that Portnoff has a proven record with the City. She noted that when making her last presentation to Council regarding the taxes, trash and recycling collection her report was called “the only bright light the City has seen for quite some time” and she also recalled that someone made the comment that Portnoff should perform all billing and collection due to their successful track record.

Ms. Portnoff explained that Pennsylvania law allows municipalities to use the Tax Claim process and 3<sup>rd</sup> party collection. She stated that using a 3<sup>rd</sup> Party Collector the City has experienced improved collection rates within the 1<sup>st</sup> year of billing and that the delinquent costs are shifted over to the taxpayer. When all delinquent taxes are fully paid the delinquent fees are reimbursed to the City; therefore eliminating the City’s upfront expense. The fees on top of the delinquent amount provide incentive for the taxpayer to pay quickly and on time. She stated that historically cities using 3<sup>rd</sup> Party Collectors find that less properties become delinquent over a three (3) year period.

Ms. Portnoff explained the materials provided. She stated that the billing company, MCTL, is a Portnoff company. She stated that in 2010 (to date) 68% of the property taxes billed in March were paid in full and in 2009 the City collected over 100% of the taxes billed (taxes and fees). She called Council's attention to the reports included covering property taxes, trash and recycling fees.

Ms. Portnoff explained that Tax Claim law is statutory and is very clear. First notice is sent in the Spring after the billing year warning that if the delinquency is not cleared an Upset Sale will occur within 18 months. She stated that historically little revenue is realized during this time period as there are no follow up communications with the taxpayer and that revenue is only realized from properties selling at private sale and from properties that are refinanced. She also reported that if the taxpayer shows economic hardship the County needs to delay the Upset Sale by an additional year. She added that without assistance from a 3<sup>rd</sup> party collector cities generally receive 70% of the taxes billed within a two (2) to three (3) year period.

Ms. Portnoff stated that the best benefit of using a 3<sup>rd</sup> Party Collector is the reduction in delinquencies, as taxpayers want to avoid additional fees and improved cash flow.

Mr. Marmarou noted that the proposal stated that one Portnoff employee will be stationed in City Hall one day per week. He inquired if that will be sufficient as many people physically come to City Hall to pay their bills. Ms. Portnoff stated that coverage will be provided based on demand. She added that the hours staff will be available will be communicated to the

public.

Ms. Weidel added that the lines in Treasury are also created because other bills are also due on the last day of the month.

Mr. Waltman requested collection costs\losses and a projected cash flow over a two (2) year period. He also expressed the belief that the use of a 3<sup>rd</sup> Party Collector will perform better than the County. He also requested a comparison of the approach of the 3<sup>rd</sup> Party Collector vs. the approach used by the County.

Mr. Acosta expressed the belief that the fees charged are too high and unfriendly. He added his belief that the proposed 22% tax hike will increase the number of delinquent taxes. He noted his experience in dealing with various taxpayers during his work with the local bank.

Ms. Portnoff replied that the high fees act as incentive to pay on time. She also described the hardship program administered at no additional charge.

Mr. Denbowski explained that the hardship program also applies to trash and recycling collection. He stated that if the property owner makes contact with Portnoff during the delinquent period, the fees stop. He also described the generous payment plans where the City and Portnoff work with the taxpayer to define a payment plan that can be successfully managed by the taxpayer.

Ms. Portnoff expressed the belief that the majority of delinquent taxpayers who ignore the notification letters are the owners of non-owner occupied properties. She added that when these types of properties enter the Tax Claim process, non-owner occupied properties use the County process as a parking lot which negatively affects the City's cash flow. She stated that the 3<sup>rd</sup> Party Collector can apply more pressure on the delinquent property owner.

Mr. Cituk stated that the County claims that they can charge the City a 5% fee for all property tax collections, even if County services are not used. Ms. Portnoff expressed the belief that the claim is valid. Mr. Cituk noted that the City would owe the County approximately \$500K per year.

Ms. Portnoff again explained the various payment options offered to delinquent taxpayers.

Mr. Spencer expressed the belief that the City should also transfer Per Capita, LST, BPT, etc billing and collection to a 3<sup>rd</sup> Party Collector to achieve improved efficiencies.

Mr. Sterner agreed and added his belief that the majority of delinquent taxpayers are not having economic hardships but are purposefully avoiding tax payments. He suggested that

the use of the County Treasurer will increase the delay in the payment of property taxes.

Ms. Portnoff stated that she will supply the additional materials requested along with a proposal to collect other City taxes.

### **Personnel Issues**

Mr. Spencer noted the need to defer this issue until the Mayor is present. Mr. Denbowski stated that the Mayor is in Harrisburg today. Councilors questioned why, after a 3-4 week vacation, he would not be attending to City business here in Reading.

### **Update on Budget Follow-up List**

#### **2011 BUDGET FOLLOW UP ITEMS**

#### **Assigned to City Auditor**

No current assignments.

#### **Assigned to Administration**

#### ***10-16-2010 Review Meeting***

1. Employee Health Care - present new package information to employees  
**Done – Distributed to Council. Not employees. Meetings scheduled with management and 1<sup>st</sup> Level Supervisors on Nov 16<sup>th</sup> and 22<sup>nd</sup>**
2. Property Tax Billing to County - Nelson Long & Solicitor Georgeadis presentation to Council re abilities to undertake collection activities prior to tax sale; collection activities used by other similar municipalities in Berks and PA cities; RFP prior to transfer of collections to County; seek County's permission to undertake private collection activities  
**Done. Follow up information requested, not yet received.**
3. Act 47 increase of property tax collection by \$800K - check with PFM; also review all collections recommendations in Act 47  
**The budgeted 2011 number is deemed collectible. An additional \$800,000 over and above the budgeted number is not realistic. Please review projections from Councilor Waltman.**
4. EIT Collection – overall and obtain progress report from Linebarger  
**Linebarger will not be collecting EIT. Berks EIT will be handling both current and prior year EIT. The Finance Committee was told at their August meeting that Linebarger was starting work to collect delinquent EIT and LST. Please provide an update on collections activities for delinquent EIT & LST for 2010, 2009, etc.**
5. Per Capita - discuss transfer to Berks EIT or other entity

**Berks EIT does not collect Per Capita. Has the Administration considered outsourcing Per Capita collection to a 3<sup>rd</sup> party such as Linebarger?**

6. Budget Goals - present goals and outcomes that are included with the 2011 budget. **We have most of the Strategic goals, but Police and Fire are still needed. Please distribute strategic goals to City Council Will be distributed on Sat Nov 6<sup>th</sup>**

#### ***10-18-10 Review Meeting***

7. Breakout of Fringe Benefit area – items included and cost of each benefit item  
**Fringe benefit information from Riverside was provided. Council would like a breakout showing each fringe benefit area associated with the total fringe benefit expense cost and the individual cost of each benefit item. Also provide the formula defining how this cost is calculated per employee. Riverside working to complete**
8. CORRECTION - Eliminate Healthcare cost in Purchasing as employee already covered through Codes due to marriage  
**Employee is carrying the benefits for the entire family. Was a corresponding deduction made to the PMI budget? Employee in Purchasing covers family plan, adjustment made to Codes budget**
9. CORRECTION – Council Office salary line item – add funding for Administrative Assistant position  
**Added to list to be discussed later.**
10. CORRECTION – FT Position Ordinance restore Administrative Assistant position  
**Added to list to be discussed later.**
11. Services Center – savings required in the Act 47 Recovery Plan not realized to make Center cost neutral  
**Savings were achieved. Determination if Services Center viable and in what form for 2011**

#### ***10-20-10 Review Meeting***

12. Property Tax Collection – costs and effect, pros/cons, define how past practice differs from current practice w/ timeline  
**Spreadsheet was provided. Need Tax Claim collection percentages from Mr. Long to accurately compare delinquent collections to Portnoff's percentages. Awaiting follow up information from County Treasurer & Portnoff**

#### ***10-23-10 Review Meeting***

13. Inquire if Portnoff could take over property tax billing and collection. Overall what are the billing and collection operational costs and prediction on the impact on revenue reductions if collections switched to the Tax Claim Bureau  
**Portnoff is preparing a proposal for current year collection. We are expecting the County to provide collection rates to compare. Awaiting response**

Identify funding source to restore 10 police positions, bringing the total sworn officer position up to 179 for 2011.

**We have already restored 6 positions due to police pension decreases. Other positions will only be restored if money is available.**

14. Prepare and present contingency plan for the reduction of sworn officers below the 179 minimum

**Although discussed by the Mayor, Chief and Carl, we will prepare a formal contingency plan. Please provide a copy of the contingency plan to Council. Will be provided Sat Nov 6<sup>th</sup>**

### **10-25-10 Review Meeting**

### **10-27-10 Review Meeting**

15. Trash and Recycling Indirect Costs – currently included only in Recycling; should be split between trash and recycling **Adjustment made**

16. Water – eliminate all Depreciation line items **Adjustment made**

Water Admin	Depreciation	50-15-81-4738	50,000
Water Collect	Depreciation	50-15-83-4738	6,500
Water Purif	Depreciation	50-15-84-4738	108,000
Water Pump	Depreciation	50-15-85-4738	16,700
Water Distrib	Depreciation	50-15-86-4738	785,000

17. Library – move \$100,000 from Library to Non Departmental **Adjustment made**

18. Library – eliminate \$125,000 for Light & Power as Library pays these costs directly **Adjustment made**

19. Library Fringe Benefits – reduce allocation in Circulation to \$80,000 from \$94,913 to reflect eliminated position **Adjustment made**

20. Library – Fringe Benefits – review need to add cost of pensioner benefits to this lien item **No Change necessary**

21. CDBG Library – move \$14,000 allocation for summer reading program to SE Branch due to partnership with Olivets **Adjustment made**

22. CBBG-R – breakout of remaining funds – **Provided by Dan Robinson Fri Oct 29th**

23. County Treasurer – description of old collection process vs. new process with timelines; use of a 3<sup>rd</sup> party collector under Municipal Claims Act; breakout of tax billing vs. tax collection for 1 year period, delinquent amount collected following year and amount moving into Upset and Free and Clear status; written proposal for billing and collections services from County Treasurer and Portnoff – **Awaiting proposal from County Treasurer and additional information from Portnoff**

24. Tax Certifications – note loss of certification \$44K in revenue lost when billing eliminated

25. Non Departmental – add annual dues for Chamber & Center for Local Government **Adjustment made**

26. BCTV – consider reducing allocation to \$75K, same as 2010

27. Solicitor Opinion re potential conflict of interest for Councilor Reed to vote on CDBG or GF budgets due to paid compensation for news articles – **Completed Nov 1**

**10-30-2010 Review Meeting**

28. Reduce BCTV Funding to \$75K; provide regulations for CDBG Administrative allocations and breakout of administrative fees paid for last 3 years – **Awaiting regulations from CD Office**
29. Solicitor Opinion as per #43 above and on City's ability to fund BCTV as Mayor is board member
30. Settle gap between Administrations Property and EIT Tax projections and projections from PFM in RE01 of the Recovery Plan
31. Update from Linebarger on 2010, 2009, 2008 delinquent collection of EIT, LST, Per Capita and Housing
32. Construction Permits – Increase by \$900K due to planned construction projects – **Move review required**
33. Animal Rescue League – increase projection by \$13K due to contract - **Adjustment made**
34. Unemployment – reduce expenditure from \$600K to \$200K **More review required**
35. Tax Collections – increase Tax Collections expense from \$15,000 to \$105,000, as Portnoff will continue delinquent collections for 2011, also make corresponding reimbursement increase to Revenues **Adjustment made**

**Other Matters**

Mr. Waltman and Mr. Acosta stated that a list has been created showing potential budget adjustments.

Mr. Geffken and Ms. Weidel left the meeting.

Mr. Acosta noted the need for Council to consider these adjustments and decide if they could or could not support them. After some discussion, Council decided to review the list of adjustments on Saturday, November 6<sup>th</sup>.

Ms. Reed agreed with the triage approach as Council considers funding core services, although she noted the difficulty in dealing with this "Sophie's Choice" list.

After some discussion, Mr. Younger was asked to have Mr. Mooney and Mr. Miravich attend the Saturday session to discuss the sewer issue.

The meeting adjourned at approximately 7 p.m.

*Respectfully submitted by Linda A. Kelleher CMC, City Clerk*



